it, to get spending under control. Except maybe increasing taxes.

Do you not think the American people are taxed to death? My gosh, wait until April 15 comes along. Some of the taxes in the President's tax plan, the tax increases do not even hit until this April 15. And I think people are really going to be upset when they find out it is not just the rich that are paying for all this. Everybody in America is paying higher gas taxes right now. They are paying higher gas prices right now. I saw a top premium gas last night for $1.40 a gallon. It was about a $1.18 when that tax bill passed.

What do you think causes those things to go up? Why, it is Government, by and large. And count on your gas prices, if we do not get a balanced budget amendment passed, count on your gas prices to start getting up around the European prices of $2 and $3 and $4 a gallon. Wait until America has to do that and our love affair with the automobile is going to be severely hampered. That is where we are headed. That is exactly where we are headed, in the same direction as those socialized economies all around the world which are paying through the nose because they have allowed Government to grow too large.

Mr. President, it is unbelievable to me that anybody would in any kind of sincerity put up an amendment that does this to the Constitution. It is unworthy of this body, in my opinion. Others can come out and argue for it if they want to.

But the fact of the matter is any amendment they bring up is an amendment to kill the balanced budget amendment. And there are some in this body who would do anything to keep on taxing and spending, because that is what they believe gets them elected. To me, it is time to quit worrying about elections and to worry about the country, and the balanced budget amendment makes us worry about the country.

Mr. President, we will have a lot more to say about this on Monday. But let me tell you what is going to happen. Senator DOLE has asked me to tell the Senate that if we have a full and good debate on Monday and probably Tuesday, we may be able to carry over the vote on this Daschle amendment for Wednesday. But if we do not have a good debate and we just waste time around here on Monday, then we will probably move to table the underlying Daschle amendment on Tuesday.

Some of our friends on the other side want to put it over until Wednesday so they can coordinate it with the President's press conference down at the White House, which, of course, is, in the opinion of some, geared to undermine the balanced budget amendment.

We can live with that. We think a good idea does not necessarily have to be afraid to stand up to any kind of withering criticism. It is not very withering after all, anyway.

But we are going to table this Daschle amendment. We have to table it. We could not for a minute allow this type of stuff into the Constitution of the United States, this type of definitional misuse of words.

Mr. President, that is basically what is going to happen this next week. We looked forward to Monday when we can debate this in earnest and go into some of these words and what they mean in detail.

Also talk even further, about why we need the balanced budget.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. HATCH. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

ECONOMISTS OPPOSE BALANCED BUDGET AMENDMENT

Mr. MOYNIHAN. Mr. President, this morning, in a room just off the Senate floor, a group representing over 450 of our Nation's most distinguished and respected economists—among them seven Nobel Laureates—gathered to express their profound and unequivocal opposition to a constitutional amendment requiring a balanced Federal budget.

Their conclusions, based not on partisan proclivities, but on decades of scholarly inquiry in the field of economics, deserve the full attention of the Senate. I ask unanimous consent that a portion of their remarks be reprinted in the CONGRESSIONAL RECORD.

There being no objection, the remarks were ordered to be printed in the RECORD, as follows:

STATEMENT OF HENRY J. AARON ON THE BALANCED BUDGET AMENDMENT

The economic, legal, and political arguments against the balanced budget amendment are powerful, and I hope that these arguments persuade enough Senators to defeat the amendment in the Senate. Nonetheless, it is possible that the proposed amendments will be sent to the states for ratification. My remarks this morning are addressed to state legislators. They can be expressed in one word: Beware!

Congress has elected not to include in the draft amendment any limit on the capacity of Congress to place mandates on the states. The reason is the supporters of the amendment knew that they could not count on enough votes to pass the amendment if such a prohibition were included. Why are members of Congress unwilling to include such limits in the amendment but instead are limiting themselves to procedural limitations, which they are free to change at any time?

The reason, clearly, is that members of Congress understand that they may wish to carry out policies for which they are unwilling to vote the taxes that would be required under the balanced budget amendment. They wish to reserve to themselves the power to force states and localities to carry out the Congressional will.

Let me be clear. I believe that unfunded mandates are often appropriate vehicles for federal action and I oppose including in the constitution prohibitions or major constraints on their use. But such mandates, on occasion, have been used abusively or inappropriately in the past. A balanced budget amendment make it quite likely that they would be used far more extensively in the future.

The public mood currently oppose activist policies by the federal government. But anyone with more than an ounce of historical perspective should recognize the political styles change. Should the states ratify the balanced budget amendment, Congress will predictably and inexorably turn to mandates on states and localities to carry out the Congressional will at such time in the future as the public mood comes once again to favor activist government, By forcing states to raise taxes to pay for mandated services, Congress will be able to claim credit, while state officials take the heat.

In plain English, the balanced budget amendment is a time-bomb that threatens to undermine state fiscal and governmental autonomy. State legislators, whether conservative or liberal, should act as custodians for their successors whose independence is vital for the health of the U.S. political system.

STATEMENT OF ISABEL V. SAWHILL

There are lots of reasons to be against a Balanced Budget Amendment to the Constitution. These have been well-articulated by my colleagues today.

However, in my view, there is only one big reason—and that is that a Balanced Budget Amendment is a dishonest means of achieving a worthy goal.

Let me be clear. I am all for balancing the budget. It is the single most important means we have to put the economy on a higher growth path and improve standards of living. But amending the Constitution will not get the job done. Only doing the job will get the job done.

To use a simple analogy, you can't lose weight simply by making a New Year's resolution to go on a diet. You can only lose weight by eating less or exercising more.

Let's have a debate about how fast and when we can safely take off the pounds. Let's also have a debate about whether we should eat less or exercise more. But let's not pretend that resolutions or changing a document as basic as the Constitution will solve the problem.

It substitutes process for problem-solving, pious words for specific deeds, public manipulation for restoration of the public trust.

Thank you.

STATEMENT BY PAUL A. SAMUELSON AND ROBERT M. SOLOW

We oppose the Balanced Budget Amendment because we believe it to be both bad government and bad economics.

At the most fundamental level we think that it is a grave mistake to involve the Constitution in the year-to-year making of economic policy. In this case, especially, when the mere definition of what is allowed and forbidden can never be unambiguous, it seems damaging and foolhardy to impose a constitutional mandate whose meaning will have to be adjudicated on a case-by-case basis by the courts. Federal judges who have better things to do will have to decide whether this or that accounting gimmick counts as revenue or outlay in calculating the balance of the budget. The infinite inventiveness of accountants can always stay one step ahead of the judiciary. It is astonishing that conservatives who think of themselves as strict constructionists can contemplate embroiling the Constitution so directly in matters of everyday politics that should clearly be the province of legislation.

It is inevitable, and it is clearly intended, that the constraint imposed by the Balanced Budget Amendment will be used as an instrument of social policy by denying the Federal government the means to do things that a majority of Congress might otherwise wish to do. The result will be legislation by accounting decisions, reviewed by the courts.

More narrowly, the Amendment is bad economics. It puts more emphasis on the ritual idea of an annually balanced budget than it should have. There may be times when it would be best if the Federal Budget, however defined, should be in prolonged surplus. The Balanced Budget Amendment does not forbid this, but there can be no doubt that it works in the direction of favoring exact balance. The economy may not always suffer from inadequate national saving, as it does now. So there may be times when the Federal budget should be in deficit for a few years. We emphasize that we do not think this is one of those times, but we can not say it will never happen.

Many economists have pointed out how perverse the Amendment can be when the economy falls into recession. Then the appearance of a cyclical deficit is a desirable, functional event, not an undesirable one. At such a moment, the higher taxes or reduced transfers or lower expenditures that would be needed to restore balance will worsen the recession and do relatively little to reduce the budget deficit. Of course some escape mechanisms will be built into the amendment. But they will inevitably be slow, uncertain in their scope, and subject to manipulation by a minority. (This would be an obvious occasion for dissidents to challenge the accounting conventions in use.)

We are strongly in favor of a gradual, appropriately flexible program aimed at increasing the national saving rate by reducing the Federal deficit. This is a hard thing to do, given the voting public's desire to have public services and social programs without paying for them by taxes. But that is the sort of problem democracies have to learn to deal with in the ordinary way, by legislation and executive action. Getting the Constitution involved can only subvert our political system and endanger our economy.

STATMENT OF JEFF FAUX,

Economists are famous for producing a wide variety of different answers to the same question.

Yet there are some things on which there is—although never a perfect consensus—wide agreement. The folly of a Balanced Budget Amendment to the Constitution is one of them. Even those who almost always disagree on budgetary and fiscal policies believe such an amendment would seriously damage the nation's ability to conduct sensible economic policy.

The Amendment would: make economic policy making more rigid, legalistic, and slow at a time when domestic and world markets are increasingly volatile and complex; cripple efforts to stabilize the business cycle; hamper the public's capacity for making long-term investments in human and physical capital; make it almost impossible to coordinate economic policies with other nations; and, put macroeconomic policy in the hands of the courts.

The Balanced Budget Amendment is an irresponsible act that will severely weaken the national capacity to cope with the economic problems of the 21st century.

STATEMENT OF LAWRENCE CHIMERINE

My name is Lawrence Chimerine. I am Managing Director and Chief Economist of the Economic Strategy Institute. I appreciate the opportunity to testify before the Joint Economic Committee on the advisability of a constitutional amendment to balance the federal budget.

In sum, my views are as follows:

a. While the Clinton administration economic and budget program enacted in 1993 has dramatically improved the deficit outlook, future deficits will still be unacceptably high without further policy actions. In particular, while the deficit is now falling, most projections suggest that it will start rising again in approximately two years, and will continue to rise substantially into the next decade.

b. Deficits do matter. In particular, cutting the deficit is the only reliable way to increase our anemic national saving rate in order to provide for higher investment in the long term—this is necessary to increase productivity, improve our international competitiveness, and to create a rising standard of living for most of our citizens. Cutting the deficit will also bring down real interest rates and reduce our dependence on foreign capital, both of which are also desirable in the long term.

c. There is no simple rule to guide future deficit reduction. My own view is that a multi-year deficit reduction program should be enacted as soon as possible to reduce the projected deficit in ten years by at least one-half, but to allow for delays of part or all of the policy actions if economic growth in any year is below a specified minimum level. This will avoid excessive fiscal drag at a time when the economy may already be weak, but at the same time will generate confidence in financial markets that significant future deficit reduction will occur in order to get the maximum impact on long term interest rates as soon as possible.

d. Despite my view that it is important that we bring down future budget deficits, I am strongly against enactment of a balanced budget amendment, for several reasons. First, striving for a balanced budget in the year 2002 may create too much fiscal drag, especially during the next several years when the effect of recent increases in interest rates and other factors begin to slow economic growth. Thus, it may not be good fiscal policy—at a minimum, it may be necessary to stretch out the period for reaching a balanced budget considerably. Secondly, it will be extraordinarily difficult to achieve a balanced budget in the year 2002 without decimating some major programs which are important for our economic and/or social well being, or without significant tax increases. This would be especially the case if defense, social security benefits, and some other entitlements, as well as the now large interest component of federal spending, are excluded from cuts—this would require extraordinarily large cuts in other programs. Since many of these programs affect the poor, many people will be badly hurt, or it will force state and local governments to sharply raise taxes in order to reduce their pain. Spending cuts are also likely to affect programs that are needed to help build for the future, including public infrastructure, support for research and development, education, etc.—this too would be unwise. Third, the requirement to balance the budget in every year would make the business cycle worse by requiring spending cuts or tax increases during recessions, exactly the opposite of sound macroeconomic policy. Fourth, it will likely result in budget gimmickry, such as the use of optimistic assumptions, putting programs off budget, etc. to reduce the difficulty in actually facing up to the spending cuts or tax increases that would be required. In the long run this could actually make future deficits even worse.

e. I am particularly concerned about consideration of a balanced budget amendment at the same time that there appears to be a head-long rush to enact sizeable tax cuts and to increase the defense budget, and to make it more difficult to raise taxes in the future. Needless to say, the huge revenue losses from the tax cuts now being proposed will make it even more difficult to even come close to balancing the budget in the years ahead, or even in fact to put the deficit on a downward trend. Furthermore, while no one likes tax increases, it is not desirable to reduce our future flexibility on the tax side because we may reach a point where tax increases are necessary in order to reduced budget deficits, or to fund vital programs.

THE EVOLUTION OF THE DEFICIT PROBLEM

Many still believe that the enormous deficits of the last fourteen years have been the result of overspending by Congress. However, today's massive deficits, as well as those during the 1980s, were directly attributable to the misguided economic policies that were implemented in the early 1980s under the banner of supply-side economics. Multi-hundred billion dollar deficits for as far as the eye can see were predictable at that time because:

1. The mythical spending cuts that would supposedly result from the elimination of waste, fraud, and abuse were enormously exaggerated from day one.

2. The incentive effects of supply-side tax cuts were inconsistent with most empirical evidence, and thus were enormously overstated.

3. Thus, not only did the big military spending increases and large tax cuts put massive pressure on the deficit, but the anticipated spending offsets, and the added revenues from economic growth, could never and did never materialize.

4. Furthermore, the explosion in health care costs and other entitlements have pushed the cost of those programs far beyond earlier expectations.

5. The problem was worsened by the use of extremely optimistic (and usually inconsistent) economic assumptions, understatement of program costs, budgetary gimmicks, etc. which enabled the Reagan administration to consistently present budgets that were projected to be in balance, when in truth there was virtually no possibility of that occurring.

6. Finally, the problem began to feed on itself. The inaccurate projections created an attitude of indifference and neglect which prevented any real solution to the deficit problem, thereby causing the national debt to skyrocket so that interest on the debt began to grow at an enormous rate.

BUDGETARY MYTHS

The move toward a constitutional amendment to balance the budget clearly reflects the frustration which currently exists in the Congress regarding the inability to effectively deal with the deficit problem, as well as an effort to find a way to avoid making the hard decisions. It also appears to be an indirect admission of guilt by the Congress that they in fact are also responsible for the budgetary mess. The real problem, as mentioned earlier, was the lack of leadership by the Reagan Administration during those years, and the spreading of a number of budgetary myths that perpetuated the inaction. As indicated earlier, these included the following:

1. Waste, fraud and abuse—the idea that multi-billions could be saved by eliminating waste, fraud and abuse in government programs—a painless solution that was absurd from day one.

2. Tax cuts would pay for themselves (even more than pay for themselves) because of

strong incentive effects which would create faster economic growth—there was no legitimate economic evidence to support the conclusion that the large tax cuts enacted in the early 1980s would have the huge impact on savings, investment, and work effort that had been predicted, nor would it produce the strong economic growth which underlied economic and budgetary projections at that time. As a result, it was clear that the tax cuts would result in substantial revenue losses, which is exactly what happened. The assertion by many that the problem is not on the revenue side because tax revenues actually increased as a result of the tax cuts of the early 1980s is inaccurate. Both personal and corporate income tax collections as a share of income and profits respectively are far below where they were a decade ago—total tax revenues are roughly at the same ratio of GNP as they were prior to the enactment of the supply-side program primarily because of the big increase in Social Security taxes enacted in the mid-1980s, and because of other tax increases enacted along the way.

3. We will grow our way out of it—this was another form of the argument stated above, which, as mentioned earlier, was insupportable from day one.

4. State and local budget surpluses will offset the Federal deficit—this too was a red herring which was employed by those who were belittling the deficit in the 1980s. State and local surpluses were never large enough to come anywhere near offsetting Federal deficits.

5. Deficits don't matter—when all the arguments mentioned above turned out to be wrong, it was asserted by the Reagan administration that deficits don't really matter anyway. They cited the economic expansion of the 1980s, despite the deficit, as proof. Of course, as many of us pointed out at the time, we were able to attract massive sums from overseas to help finance those deficits and extend the economic expansion—any reasonable expectation was that the flow of capital from overseas would eventually fade out, as has now been the case.

6. The deficit is due to Congressional overspending—once previous Administrations ran out of rationalizations, the blame shifting began. The truth is, however, that Congress has appropriated less money for discretionary programs (usually in defense) than the Administration asked for in ten out of the twelve years between 1980 and 1992. In fact, discretionary non-defense spending and grants-in-aid to State and local governments were cut substantially during the 1980s, not only relative to earlier current service projections, but as a share of the total budget, and as a share of total GNP. Many domestic programs have fallen sharply in real terms as a result.

We all know why the deficit is still huge and why the problem has not been addressed. It's because of dishonesty in the budgeting process, and lack of leadership from previous Administrations, which resulted in a series of proposed budgets which purportedly balanced the budget in ''out years'' based completely on mythical savings, extraordinarily optimistic assumptions, budgetary gimmicks, program understatements, etc. The problem was essentially assumed away. Perhaps Congress should have taken the lead on its own, but it was unrealistic to expect 535 Senators and Congressmen, each with their own constituents, to take the lead on a matter like this.

THE CURRENT DEFICIT OUTLOOK

The Clinton Administration and Congress enacted the most significant deficit reduction package in 1993 since the problem developed. The combination of spending cuts and tax increases enacted will reduce total deficits in the 1994–1998 period by almost $500 billion and will also reduce the level of the deficit each year beyond that time. Furthermore, unlike previous attempts to reduce the deficit, this is real deficit reduction—it was based on realistic economic assumptions and estimated impacts of the specific policy actions, so that the actual reduction in the future will closely match the estimates provided at the time the budget plan was implemented.

Unfortunately, however, the deficit outlook is still poor. While the deficit in the next two fiscal years will be about half of the near $350 billion annual level experienced in the early 1990s, in great part because of the new deficit package, as well as because of the economic recovery, virtually all projections indicate that the deficit will begin to rise again by fiscal 1997, and all continue to rise at a substantial rate into the next century. For example, the Congressional Budget Office is now projecting that the deficit will rise to over $400 billion in the year 2004, from the approximately $180 billion projected for fiscal years 1995 and 1996. These projections imply increases in the deficit to GDP ratio, and in the national debt to GDP ratio. In great part, this reflects the bottoming out of defense spending near the end of this decade, as well as continued increases in the cost of the entitlements. Furthermore, this horrendous deficit outlook is in reality even worse because it includes sizable surpluses from the Social Security trust fund—when these trust fund surpluses begin to be paid in benefits early in the next century, the unified deficit is likely to skyrocket unless steps are taken to reverse current trends.

CUTTING THE DEFICIT IS IMPORTANT

This outcome is unacceptable. It should now be clear that these enormous deficits do matter. They have already begun to slowly suck the vitality out of the U.S. economy by squeezing out productive investment, keeping real interest rates extraordinary high, increasing our dependence on foreign capital, reducing the effectiveness of fiscal policy as a stabilization tool, and by creating pressures on those Federal programs that are needed to help build our economy for the future. In my view, the urgency to reduce the deficit is even greater now than it was in previous years, for the following reasons:

1. Personal savings have declined since the 1980s, despite the supply-side incentives, thus reducing the supply of domestic savings.

2. The flow of capital from Japan, Germany, and other parts of the world, which helped fund our deficits in the 1980s when we were the world's major capital importer, has slowed dramatically. This is resulting from the fact that many of those countries are no longer generating surpluses at the same degree as they were previously, and because other parts of the world have become large capital importers as well.

3. A consensus is finally developing that the most critical need in the United States is to improve our productivity and competitiveness—we can no longer grow, as we did in the 1980s, by building empty office buildings and patriot missiles, and by leveraging the system, while long-term growth factors are deteriorating. It is clear that reversing the weak trend of productivity and improving our international competitiveness will require substantial increases in investment, including modernizing our capital stock, investing in education and job training, and rebuilding our infrastructure. High real long-term interest rates, largely caused by massive deficits at a time of lower domestic savings and a reduced inflow of foreign capital, will discourage some of our needed investment.

In effect, it is essential that we create invest-led growth in the United States in order to begin to build for the future. But to do that, the federal deficit must be gradually reduced in order to free up more of our savings to finance private investment, and to reduce real long-term interest rates. Furthermore, it is essential that government priorities be changed at the same time that deficits are reduced—clearly, more federal spending is needed for rebuilding the existing infrastructure and developing the infrastructure of the future, improving the quality of education, funding more non-defense research and development, and for other such programs that will both directly improve U.S. productivity, and help begin to rebuild the U.S. economy. The challenge of course is how to do both—across the board spending cuts, or any other method that does not result in the necessary change in priorities, will not be sufficient if our objective is to get the U.S. economy on the right course for the future.

A BALANCED BUDGET AMENDMENT IS NOT THE ANSWER.

Despite the urgency of reducing future budget deficits, I am strongly opposed to the enactment of a balanced budget amendment. In my judgment, it is simply another gimmick like those that have been implemented in the last six or seven years, beginning with Gramm-Rudman, which have had very little, if any, impact. It will not only be an ineffective tool in dealing with the problem, but in my view is simply a way to attempt to avoid what will be difficult choices, and place the blame for any unpopular spending cuts or tax increases on a mechanical formula rather than on Presidential or Congressional decisions. In brief, my concerns, are as follows:

1. Which budget is to be balanced? Is it the structural budget deficit, the unified budget deficit,the on-budget deficit, etc.? Should government investment be included or excluded? Answers to these and similar questions are not intuitively obvious.

2. It is likely to encourage even more use of optimistic forecasts, program underestimation, moving programs off-budget, and other similar techniques in order to avoid the tough decisions that will be needed to be made to actually balance the budget. Thus, the balanced budget amendment has the potential of making the budget process even more flawed than it was in the 1980s. We are also likely to see the adoption of more gimmicks that produce short-term revenue gains at the expense of revenue loss beyond the balanced budget period, which will simply make the long-term problem even worse.

3. There are times when a balanced budget may be undesirable. These may include periods of recession or slow growth, wartime periods, or situations when domestic emergencies might exist. In my view, it will be difficult to plan for all these contingencies in a balanced budget amendment, and any effort to offset these factors will be harmful to the economy. Furthermore, its goal of reaching a balanced budget in a relatively short period of time may create too much fiscal drag too rapidly.

4. In my view, if will probably make it more difficult for us to deal with our other critical budget problem, namely reorienting our priorities, because the tendency will be to look for the easiest ways of cutting the deficit, rather than those that are best for the economy.

5. What if, in fact, a balanced budget isn't achieved because the economic assumptions turned out to be incorrect, even if they were reasonable in the first place? How do we make adjustments for it? Who gets penalized? These are also difficult issues that would have to be covered.

6. Efforts to enact major tax cuts at the same time that the balanced budget amendment is being debated is the height of cynicism, especially the tax cuts that have been proposed in the Republican Contract with America. Those tax cuts would generate sizable revenue losses, especially in the out years, making what will already be an extraordinarily difficult task of substantial deficit reduction (let alone a balanced budget) in seven years virtually impossible without almost a near dismantling of government programs except for social security and national defense. This is the height of cynicism, as well as horrendously bad social and economic policy.

It is also important to remember that the Federal budget, by its sheer size, and because of its role as a stabilization tool, should not be considered in the same way as an individual state or local government.

HOW TO CUT THE DEFICIT

While additional long term deficit reduction is thus essential, this must be balanced with two other objectives. First, it is important that we do not further undermine the use of fiscal policy as a stabilization tool. In particular, it would be counterproductive to cut the deficit so quickly that we would dramatically weaken the economy when it is already operating below full employment. Second, we need to reduce future deficits in a manner that would not make it more difficult for us to deal with our other critical budget problem, mainly reorienting our priorities away from consumption and more toward public investment and other expenditures that are needed to support long term economic growth.

I suggest the following approaches an alternative to a balanced budget amendment.

1. Unfortunately, there is no precise rule of thumb or model simulation which can give us the optimum path for future deficit reduction. In my view, an appropriate objective would be to cut the $400 billion deficit now projected by CBO for 2004 in half—this would suggest that over the next 10 years the nominal deficit would be roughly flat, implying a gradual decline in the deficit in real terms, in the deficit as a share of GDP, and even more importantly, in the debt to GDP ratio. Such a target would imply putting in place approximately $15–20 billion per year of budget restraint for each year over the ten year period—in my judgment, with the safeguards I will list below, I think this is doable and will not create too much fiscal drag on the economy.

2. Spending cuts should be the top priority. In view of the large cuts in non-defense discretionary programs in the 1980s, and given the need to increase spending in some of these areas, it is unlikely that huge savings will be realized from this sector of the budget. Thus, spending cuts must come from additional reductions in military spending, from an effective health care cost control program, and from slowing the enormous growth in the entitlements, especially the pension and health programs. I would suggest that the concept of entitlements is no longer something that this country can afford. All of the so-called entitlement programs must be slowly converted to means testing, either by scaling back benefits for upper income and high wealth individuals and/or by increasing taxes on those benefits. We should reduce (not eliminate) benefits for those who could do with less—households and individuals with modest means should be spared. Furthermore, consideration should be given to further extending the retirement age for full benefits. Scaling back of health and pension benefits should not apply only to entitlement programs—public employees are now receiving extremely generous benefits which are no longer affordable. Finally, I would suggest that any reductions in social security benefits partly be earmarked for investments to build for our future, especially for education and other programs which benefit primarily younger people. In effect, we would be reducing benefits for the elderly to be used to make a better life for their children and grandchildren.

3. Deficit reduction must be fair. In particular, it is now well documented that most of the benefit of the tax cuts of the 1980s went to those in the upper income groups—in the meantime, large social security tax increases and budget cuts have significantly reduced after-tax incomes for many low and middle income families. This has only been partly reversed in the 1993 budget package. Thus, it is important that deficit reduction be structured in a way that the impact is greatest on those who can afford it. Many will make the argument that increases in taxes on upper income individuals will create huge disincentives for savings and investment and thus would be counterproductive—however, as we learned in the 1980s, these arguments are exaggerated. Furthermore, the economy can not function effectively when a large and increasing share of purchasing power and wealth is concentrated in relatively few hands—this holds down demand and thus will prevent long term growth.

4. The arithmetic is very clear—even with the phasing-in of entitlement reform and some additional cuts in defense and non-defense discretionary programs, some tax increases (not tax cuts) will be needed in order to reduce deficits to acceptable levels. The assertion that the problem is not on the revenue side because tax revenues have actually increased as a result of the tax cuts of the early 1980s is inaccurate. Both personal and corporate income tax collections as a share of income and profits, respectively, are below where they were a decade ago—total tax revenues are roughly at the same ratio of GDP as they were prior to the enactment of the supply-side program primarily because of the big increase in Social Security taxes enacted in the mid-1980s, and because of other tax increases enacted along the way.

In my view, increased revenues should come first from eliminating counterproductive tax expenditures (incentives, exemptions, etc.) now in place, and then secondly, if more revenues are needed, from increasing taxes in a progressive manner on activities that we want to consume less of. Thus, broadening the tax base and consumption taxes should be considered before across the board tax increases. In the former category, some candidates are the following: eliminating or scaling back the interest deduction on mergers and acquisitions; scaling back the deduction for corporate advertising expenses and/or for corporate entertainment; a lower limit on the mortgage interest deduction than is now in place; taxation of a portion of corporate health care insurance premiums (this may also be helpful in controlling health care costs).

5. Most importantly, I believe that to the extent possible, a multi-year program designed to bring about the amount of deficit reduction described above should be adopted as soon as possible. This would be desirable for several reasons. First, it would avoid having to go through the torturous process on an annual basis—the medicine can all be taken at once. Second, and more importantly, one way to reduce the effect of fiscal drag on economic growth is to bring interest rates down as quickly as possible, especially long term rates—this can be best accomplished if the markets believe that a credible program to reduce future deficits is in place. While easier Federal Reserve policy can also help, the Federal Reserve has lost most of its control over long term interest rates. Convincing the markets that the federal demand for credit will be dramatically reduced in the future will be a more effective way to bring down long term interest rates than an easier monetary policy.

6. It is possible to design a multi-year deficit reduction program that can allow some flexibility to deal with emergencies and recessions. This will prevent fiscal policy from worsening economic downturns. If these exceptions are truly limited, they are not likely to undermine the credibility of the long term program. I suggest that the deficit reduction program be accompanied with an ''escape clause'' in the form of a minimum level of GDP or employment growth, or a threshold unemployment rate, beneath which future installments of deficit reduction will be delayed or scaled back in order not to create an even weaker economic environment. This is particularly important since the current level of economic activity is so low that the economy is likely to be underutilized for many years.

MORNING BUSINESS

Mr. HATCH. Mr. President, I ask unanimous consent that we now call up a period to transact morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

MESSAGES FROM THE PRESIDENT

Messages from the President of the United States were communicated to the Senate by Mr. Thomas, one of his secretaries.

EXECUTIVE MESSAGES REFERRED

As in executive session the Presiding Officer laid before the Senate messages from the President of the United States submitting sundry nominations which were referred to the appropriate committees.

(The nominations received today are printed at the end of the Senate proceedings.)

REPORT ON THE NATIONAL EMERGENCY WITH HAITI—MESSAGE FROM THE PRESIDENT—PM 8

The PRESIDING OFFICER laid before the Senate the following message from the President of the United States, together with an accompanying report; which was referred to the Committee on Banking, Housing, and Urban Affairs.

To the Congress of the United States:

1. In December 1990, the Haitian people elected Jean-Bertrand Aristide as their President by an overwhelming margin in a free and fair election. The United States praised Haiti's success in peacefully implementing its democratic constitutional system and provided significant political and economic support to the new government. The Haitian military abruptly interrupted the consolidation of Haiti's new democracy when, in September 1991, it